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REGIONAL OFFICE
ROOM 201 415 FIRST AVENUE NORTH
SEATTLE, WASHINGTON 98109

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JUL 14 1976

Dr John R Hogness, President
University of Washington
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Dear Dr Hogness

[The General Accounting Office has completed a limited survey of the procurement practices of the University of Washington under Federal grants and contracts While we did not note any improper payments, and while procurement practices were generally in conformance with Washington State Procurement Regulations, we believe there is an opportunity to obtain greater value from the limited funds available for the University's research work There appears to be a need to provide greater assurance that prices paid for equipment are reasonable]

[We were unable to conclude that reasonable prices were obtained for most of the purchases reviewed because (1) there was extremely limited competition and (2) where only one price quotation was received adequate cost/price analyses techniques were not employed Limited competition was obtained because of (1) sole source designations on requisitions and (2) requisitions that, in effect, specified sole source and, therefore, resulted in only one price proposal or selection of other than the low bidder]

[Purchase files did not always provide a complete record of the transactions They generally did not show evidence of advertising] (although most purchases over \$500 apparently were advertised) [or the basis for concluding that the price was reasonable Also, the files in some instances did not show who price proposals were solicited from]

We selected for our test eight projects (grants and contracts) which had not been closed out and which had relatively large expenditures in the equipment and supplies cost elements The larger purchases within these projects were selected for review

[We reviewed 27 purchases] amounting to about \$1,976,000 The prices of these orders ranged from \$750 to \$794,000 and the average price was \$73,000 [Only one price quotation was received for 17 of

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these purchases Of the remaining 10 orders the award was not made to the low bidder in six instances, generally because the department decided that the item proposed by the low bidder was not acceptable. Accordingly, in only 4 of 27 purchases was it evident that a lower price was secured through the competitive process }

Of the remaining 23 purchases (27 less 4) {two orders were placed with GSA Federal Supply Schedule contractors at discount prices, four orders, in which the lower bids were not accepted, were justified based on the greater acceptability of the equipment, and one order was justified based on reasonableness of the price } While a cost/price analysis was made by the departments on two other orders, the reasonableness of prices obtained were questionable. There was no assurance in the purchase order files that reasonable prices were obtained for the remaining 14 orders Prices shown on requisitions submitted by the departments were frequently the established purchase price We found no evidence in the files that the purchasing office evaluated the reasonableness of the price or negotiated with the supplier to obtain a lower price Our review indicated that some of the prices accepted may have been unreasonable } Following is a discussion of some of the purchases we examined

DISC DRIVE

Under a NASA cost reimbursable contract the University's Atmospheric Sciences Department was to support planning for the Mars Lander (Viking) Meteorology System As part of this effort the University provided equipment for testing the system

We reviewed a subcontract to upgrade a computer system previously purchased by the University from Prime Computer, Inc , Framingham, Massachusetts, through Prime's local representative, Brennan Associates. This sole source, firm fixed price subcontract was issued at a price of \$49,076 The principal item included in the order was a Control Data Corporation 30 million word 16 bit disc drive (model 9747) at a price of \$20,000.

The purchase order price of \$49,076 was based on a price quotation from Brennan Associates dated November 12, 1975 We found no evidence that the University's purchasing office inquired into the reasonableness of this price quotation. The proposed price was accepted without change

The Department's principal investigator has price lists, which agreed with the quoted prices, however, they were issued on January 15, 1976, subsequent to the supplier's proposal in November 1975

We were told by a Control Data Corporation representative that the price of their disc drive, model 9747, sold only for resale, was \$7,670 and that the item probably could be purchased at retail for about \$10,000. This is \$10,000 less than the price paid by the University.

SPECTRUM ANALYZER

Under the Navy's research contract the University issued an order to the Hewlett-Packard-Neely Sales Region, Bellevue, Washington, for the following items:

| | |
|-------------------|----------------|
| Spectrum analyzer | \$4,963 |
| Recorder | <u>1,266</u> |
| Total | <u>\$6,229</u> |

The requisition issued by the Applied Physics Laboratory to the purchasing office identified Hewlett-Packard as a source, but not a sole source. The requisition also specified a 5Hz to 50KHz spectrum analyzer, the range of the Hewlett-Packard model.

The purchasing office issued invitations to bid and received responses from five suppliers. Four said they could not bid and the fifth supplier bid \$3,800 and \$2,350 for two alternate models of the spectrum analyzer. No bid was received from Hewlett-Packard.

After the bids were opened the Applied Physics Laboratory told the purchasing office that Hewlett-Packard did not receive an invitation to bid and requested that the purchasing office place the order with Hewlett-Packard. They said they would expect to pay the price shown on the requisition of \$5,725 as this was the price recently quoted by Hewlett-Packard. The purchasing office then placed the order at a price of \$6,229. There was no explanation in the purchase files of why the lower price was not obtained. Further, there was no record clearly showing that an invitation to bid was mailed to Hewlett-Packard.

We were advised by the engineer in the Applied Physics Laboratory who initiated the requisition that Hewlett-Packard is the only company he knows of that manufactures a spectrum analyzer with a range of 5Hz to 50KHz.

The foregoing indicates to us that (1) the issuing of invitations to bid served no useful purpose as the ultimate supplier had been predetermined (2) the price paid may not have been reasonable, and (3) the purchasing office records were not complete.

LINE SCAN CAMERA

The National Science Foundation made a research grant to the College of Forest Resources for a Coniferous Forest Biome project. This program deals primarily with terrestrial and aquatic ecosystem components and their interfaces.

A purchase order was issued under this grant in June 1975 for a line scan camera and power supply to the Reticon Corporation, Sunnyvale, California, at a price of \$3,050.

The purchase order files did not disclose what effort was made to obtain price quotations other than from Reticon, or whether any evaluation was made to determine the reasonableness of the price quoted by Reticon.

Departmental files showed that the planning for the purchase of a Reticon camera began at least 4 months prior to the date the requisition was issued to the purchasing office. Accordingly, this, in effect, was a sole source procurement.

Without competitive price proposals or other evidence of evaluation of the price proposed by Reticon, the purchase files did not disclose whether the price for this purchase was reasonable.

KELVINATOR FREEZERS

The Department of Medicine received a grant for its project, Center for Inherited Diseases. The principal objective of the center's program is to obtain a more fundamental understanding of gene action in man at the level of molecules, individuals, cells, and populations.

Three requisitions were issued by the Department for a total of four Kelvinator freezers, each at a unit price of \$2,045. One requisition also included two storage units at \$111 each. The requisitions specified Kelvinator Commercial Products, Inc., Vancouver, Washington, as a sole source. They specified a freezer adjustable in 2° increments to - 76C.

Purchase orders were placed by the purchasing office as directed by the Department's requisitions, all on September 12, 1975, at the price shown on the requisitions. Purchase office files did not show whether the purchase price was compared with Kelvinator price lists or prices of other manufacturers of similar equipment. Also, there was no indication that a quantity discount was obtained or sought.

GEODETTIC EQUIPMENT

The purchasing office placed an order in July 1975 with Hydro Products, Inc , San Diego, California, under the research contract with the Navy for the following items

| | <u>Unit price</u> | <u>Total price</u> |
|--|-----------------------|------------------------|
| Speed sensor (8) | 475 | \$ 3,800 |
| Geodetic current direction sensor (8) | 1,500 | <u>12,000</u> |
| | | <u>\$15,800</u> |

The requisition issued June 6, 1975, to the purchasing office specified four potential sources of supply including Hydro Products, Inc , and Bendix Corporation, specifically identifying Bendix equipment at an estimated cost of \$10,600. The purchase office files showed two responses to an invitation to bid. Bendix bid \$10,600 and one other company said they would not bid. No bid was received from Hydro Products, Inc.

On July 8, 1975, the Applied Physics Laboratory advised the purchasing office that the Bendix bid was not acceptable because of a quoted 120-day delivery period and that an inquiry to Hydro Products Inc , indicated they could furnish comparable units about 35 days after receipt of an order.

We were told by the person issuing the requisition that (1) the Hydro Products price of \$15,800 was obtained by telephone, (2) it is generally the practice to obtain quotes by telephone, (3) Bendix and Hydro Products equipment are equivalent technically, and (4) the Hydro Products price was, in his opinion, grossly excessive. He said they have no way of knowing whether the price proposed is the catalog price, published price, or price charged to other customers of the supplier. The purchasing office files did not include any evaluation of the reasonableness of the proposed price. The purchasing office buyer told us that she did not know whether the price paid was reasonable and she had no way to determine this.

The foregoing indicates to us that the price paid may have been excessive.

Conclusions

We believe that potential exists for reducing the cost of equipment purchased under Federal grants and contracts. In instances where there

is not adequate competition, some assurance is needed that prices proposed by suppliers are reasonable. The degree to which this assurance should be sought would vary depending on the significance of the transaction. Following are some techniques which might be followed to evaluate the proposed price.

- 1 Obtain published price lists established on a competitive basis with various discounts and rebates.
2. Secure description of company policies with respect to discounts and rebates
- 3 Verify prices for same or similar items by telephone calls to other suppliers and consumers
4. Compare proposed price with the GSA Federal Supply Schedule price
- 5 Compare proposed price with prior purchases where prices were established through competition }

{ Where adequate assurance is not obtained that the proposed price is reasonable, we believe appropriate action should be taken to negotiate a lower price }

{ We also believe that purchase order files should clearly disclose what actions were taken to obtain a reasonable price } This would include the following information

- 1 { Whether the procurement was advertised
- 2 Companies from whom price proposals were solicited, in writing and by telephone
- 3 Responses received from each supplier
- 4 Basis for supplier selected, and
- 5 Basis for price agreed to, including price or cost analysis made and conclusion on reasonableness of the price agreed to }

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We appreciate the cooperation and courtesies extended to our staff during this survey

Your comments on the foregoing matters, including any actions you plan to take, will be appreciated

Sincerely yours,

JOSEPH W KEGEL

~~For~~

John P Carroll
Regional Manager

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